MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BAC 3644 – TAXATION 2

(All sections / Groups)

31 MAY 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages excluding the cover page with 5 (five) Questions only.

2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

DCL Sdn. Bhd. is a Malaysian owned resident company involved in manufacturing rubber products. The company has paid up capital of RM2.6 million and prepares its accounts to 31 December annually. The company has provided the following information in respect of the accounts for the year ended 31 December 2017.

	Note	RM'000	RM'000
Sales			13,800
Less: Cost of sales	1		9,700
			4,100
Add: Other income	2		80
			4,180
Less: Expenses			
Salaries and wages		1,045	
Employees Provident Fund	3	200	
Utilities		88	
Professional fees	4	240	
Bad and doubtful debts	5	157	
Repair and maintenance expenses	6	360	
Royalty expenses	7	60	
Lease payment	8	74	
Miscellaneous cost	9	950	3,174
Net profit before taxation			**1,006**

Notes:

1. **Cost of sales** include:

	RM
Realised loss on the acquisition of raw materials	55,000
Realised loss on the repayment of loan on acquisition of machinery	26,000
Unrealised loss on settlement of trade debts	30,000

2. **Other income** comprises of the interest derived from excess funds placed in fixed deposits with local banks and gain on disposal of assets of RM30,000 and RM50,000 respectively.

3. **Employees Provident Fund**
   The amount was paid to the employee's provident fund, an approved government agency for the retirement funds of the workers. The allowable rate is 19% from salaries and wages paid.

Continued ...

4. **Professional fees** comprised of the following:

	RM
Legal fees for recovery of trade debts	85,000
Legal fees for breach of contract	77,000
Secretarial fees	32,000
Accounting and audit fees	28,000
Feasibility study for a new project	18,000
	240,000

5. **Bad and doubtful debts** consist of RM60,000 for the general provision for bad debts and RM35,000 for the specific provision of bad debts. The balance is allocated for written off bad debts.

6. **Repair and maintenance expenses** comprise:

	RM
Repair of warehouse roof	33,000
Maintenance of company's motor vehicles	98,000
Repainting of office building	77,000
Office renovation	114,000
Architect's fees for renovation of office building	38,000
	360,000

7. **Royalty expenses:**
Royalty payable of RM60,000 was paid gross to Time (Australia) Limited, an Australian company.

8. **Lease payment** includes lease rental of a new car for the Chief Executive Officer at RM5,500 per month commencing on 1 February 2016. The cost of the car was RM130,000.

9. **Miscellaneous cost** includes:

	RM
Depreciation	58,000
Donation (computer to the approved institution)	36,000
Insurance premium paid for the export cargo (Malaysian insurance company)	66,000
Insurance premium paid for the import cargo (foreign insurance company)	78,000
Training cost for employees that attended Good and Services Tax (GST) training	23,000

Continued ...

Other information:

Company is eligible to claim capital allowances and unabsorbed capital allowance of RM250,000 and RM140,000 respectively.

Required:

Starting with the 'net profit before taxation', compute the chargeable income of DCL Sdn. Bhd. for the year of assessment 2017.

Note: You are NOT required to explain the adjustments made in the tax computation except to indicate "Nil" where no adjusting entries are required. Show all workings.

[Total: 20 marks]

QUESTION 2 (20 MARKS)

a) The following expenses are incurred by Bina Sdn Bhd, a Malaysian construction company:

- Provision for warranty claims charged to profit and loss account by the supplier of raw material.
- Entertainment expense incurred by a company for holding 'Annual Dinner' for the staff and their families.
- Cost incurred by the company in constructing a new roof for its office building. The cost of repairing the old roof would have been higher.
- Insurance premium in respect of insurance policies against fire and disaster for company.
- Fines imposed on a transport company for repeated offences of overloading.

Required:

State, with reasons, whether each of the expenses is deductible for tax purposes.

(10 marks)

Continued ...

b) Green World Sdn. Bhd. is a manufacturing company of plastic product, commenced its business in Shah Alam on 1 February 2014. The company prepares its account to 30 September every year. On 1 October 2015, the company decided to change its accounting period to 31 December annually. The company estimated its tax payable for the year of assessment 2017 as RM400,000.

The actual tax payable for the year of assessment 2017 was RM500,000. The final payment of income tax was paid on due date when Form C for the year of assessment 2017 was filed. The company's directors meeting was held in March every year in Shah Alam.

Required:

i) **Determine the company's resident status for the year of assessment 2017, explaining the reason for your answer.** **(2 marks)**

ii) **Determine the basis period for all relevant year of assessments.** **(4 marks)**

iii) **Compute the outstanding amount of tax payable and determine the filing deadline for the tax return (Form C).** **(4 marks)**

[Total: 20 marks]

QUESTION 3 (20 MARKS)

Sky Sdn. Bhd. is a Malaysian resident company, engaged in the production of a promoted product. The company was given 5-year investment incentive on 1 March 2015. The company closes its accounts to 31 December annually. The company does not derive any income from other sources. The business result are as follows:

	YA 2015	YA 2016	YA 2017
	RM	RM	RM
Adjusted income/ (Loss)	(80,000)	280,000	330,000
Capital allowance	30,000	60,500	78,000
Total qualifying expenditure:			
Heavy machinery	150,000		70,000
Factory		350,000	
Office equipment		38,000	

Continued ...

Required:

(i) Compute tax exempt income and chargeable income for the year of assessment 2015, 2016 and 2017 in respect of the business if the company is granted with 70% Pioneer Status. (10 marks)

(ii) Compute tax exempt income and chargeable income for the year of assessment 2015, 2016 and 2017 in respect of the business if the company is granted with 60% Investment Tax Allowance (ITA) (10 marks)

Note: Recomputation of capital allowances is NOT necessary. Show all workings.

[Total: 20 marks]

QUESTION 4 (20 MARKS)

a) Red Interior Sdn. Bhd. (RISB), a Malaysian resident company entered into an agreement with Tee to conduct a training for a fee of RM50,000. Tee is a non Malaysian resident, stays in Kuala Lumpur for 10 days to conducts hands-on training for RISB's employees. RISB also pay RM10,000 for disbursement of accommodation charges incurred by Tee.

In addition, RISB engaged the service of an architect, Helen (a non-resident in Malaysia) and paid a fee for RM80,000. Helen performed her works in Australia and sent all her works by courier to Kuala Lumpur.

Required:

(i) Explain whether the payments made by RISB are subjected to withholding tax in Malaysia and determine the amount to be withheld (if any). (7 marks)

(ii) Explain the consequences of not complying with the provisions of withholding tax. (3 marks)

b) Coconut Plantation Sdn. Bhd. (CPSB) carries on a coconut tree plantation for several years. The company purchased a land for plantation in December 2010 at the cost of RM600,000. In January 2014, the company incurred a sum of RM375,000 on plantation (inclusive clearing land and seedling and fertilizer) and RM100,000 on the construction of labour's quarters. In June 2015, the company constructed a storage building for RM85,000. CPSB prepares its accounts to 31 December annually.

On 31 October 2017, CPSB sold the plantation to Syarikat Pertanian Sdn. Bhd. (SPSB) for RM1 million. SPSB closes its accounts to 31 December annually. CPSB continued to use the agriculture assets until the date of disposal.

Continued ...

Required:

Compute the agricultural allowances and agricultural charge (if any) for Coconut Plantation Sdn. Bhd. and Syarikat Pertanian Sdn. Bhd. for the relevant years of assessment if Coconut Plantation Sdn. Bhd. makes any election under Paragraph 27, Schedule 3 of Income Tax Act 1967 (amended).

(10 marks)

[Total: 20 marks]

QUESTION 5 (20 MARKS)

a) Jaguh Sdn Bhd, a resident company in Malaysia, has financial problem and decided to dispose of the following real properties:

	Land in Sepang	**Office building in Melaka**	**Shoplots in Cyberjaya**	**Warehouse in Singapore**
Date of acquisition	15 December 2012	26 February 2014	3 May 2014	10 January 2016
Date of disposal	6 January 2017	3 February 2017	25 July 2017	10 October 2017
Disposal price (RM)	800,000	420,000	1,000,000	1,200,000
Acquisition price (RM)	600,000	450,000	800,000	1,100,000

Required:

Compute the real property gains tax payable by Jaguh Sdn Bhd with regard to the disposal of its properties. **(10 marks)**

Continued ...

b) Zainab, a resident taxpayer in Malaysia made the following disposal for the year 2016 and 2017:

In 2016, she sold an apartment in the fifth year after acquisition at the disposal price of RM280,000 (include renovation cost of RM10,000). She purchased the apartment at the price of RM170,000. She had elected exemption for private residence under the Real Property Gains Tax Act 1976.

On 1 February 2017, she disposed a piece of land for RM360,000. She incurred agents fee, stamp duty and legal fees of RM10,800, RM700 and RM6,000 respectively in connection with the disposal. The land was purchased on 1 March 2013 at RM290,000. She incurred legal fees and stamp duty amounted to RM8,700 and RM500 respectively on the acquisition of the land. She also paid RM3,000 commission to agent in respect of the acquisition.

Required:

Compute the real property gains tax (RPGT) arising from the disposal of the real properties by Zainab.

(10 marks)

[Total: 20 marks]

End of question.

APPENDIX 1

TAX RATES AND ALLOWANCES

i) Tax rates of resident company

Companies with paid-up capital <= RM2.5 million (at the beginning of the year of assessment)	Tax rate for the year of assessment 2017
On the first RM500,000	18%
On the remainder	24%
Other companies	
All chargeable income	24%

ii) Tax rates of non-resident company

All chargeable income	24%

iii) Withholding tax rate

Type of income	Year 2017 Rate of Tax (%)
Interest	15
Royalty	10
Special classes of income	10
Public entertainers	15
Section 4(f) income	10
Contract payment	10% + 3%

iv) Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

Continued ...

v) Agriculture and forest allowance

	Capital expenditure – Agriculture	Rate of allowance (%)
(a)	Clearing and preparation of land for the purposes of agriculture	50
(b)	Planting of crops on land cleared for planting	50
(c)	Construction on a farm of roads or bridges	50
(d)	Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e)	Any other building	10
	Capital expenditure-Forest	
(a)	Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b)	Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

vi) Real property gains tax

Holding Period	Citizen or Permanent Resident	Company	Non-Citizen or Non-Permanent Resident
Within 1 year	30%	30%	30%
Within 2 years	30%	30%	30%
Within 3 years	30%	30%	30%
Within 4 years	20%	20%	30%
Within 5 years	15%	15%	30%
Beyond 5 years	0%	5%	5%

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